BILL # HB 2473

TITLE: PSPRS; excess investment earnings account

SPONSOR: Huppenthal

STATUS: As Amended by the House Government & Retirement Committee

REQUESTED BY: House

PREPARED BY: Timothy Sweeney

	FISCAL YEAR		
	2004	**2005**	**2006**
EXPENDITURES			
General Fund	$-0-	$-0-	See Below
Other Appropriated Funds	-0-	-0-	
Total	$-0-	$-0-	

FISCAL ANALYSIS

Description

HB 2473 makes changes to statutory language regarding the excess investment earning account in the Public Safety Personnel Retirement System (PSPRS). This bill sets the threshold for determining excess investment earnings at the assumed rate of return that is set by the fund manager, rather than the current statutory language which sets the threshold at 9.0%. The bill also requires that the threshold shall not be lower than 8.0% (regardless of the assumed rate of return), and that benefit increases under this provision shall only be granted if the system is at least 100% funded.

Estimated Impact

The provisions of HB 2473 would currently have no fiscal impact to the state because the assumed rate of return is equal to 9.0%. If the fund manager sets the assumed rate of return at a rate different that 9.0%, this bill could potentially have a fiscal impact. The PSPRS contribution rates for state employers have already been set for both FY 2004 and FY 2005, therefore, any potential fiscal impact would not occur until FY 2006.

PSPRS estimates that this bill will have no fiscal impact.

Analysis

Excess investment earnings are used to grant permanent benefit increases to PSPRS retirees. Currently, excess investment earnings are defined as one-half of any return over 9.0%. This bill changes the definition to be one-half of any return above the assumed rate of return as determined by the fund manager, which is currently 9.0%. Because the current assumed rate of return is 9.0%, there is no cost impact to the state. This change does not impact the calculation of the excess investment earnings or the way in which they are distributed.

If the assumed rate of return were to be lowered, the threshold for earnings to be considered "excess" would then also be lowered. The consequence of this action would be to increase the likelihood of realizing excess earnings, and would also increase the amount of excess earnings credited to the excess earnings investment account. This would essentially lead to more of the investment earnings being diverted from the PSPRS Fund to the excess investment earnings account, which could potentially have an effect on the funding status of the fund. Over time, this difference could be significant enough to have an effect on contribution rates.

If, however, the assumed rate of return were to be increased, the threshold for earnings to be considered "excess" would be increased, thus lowering the likelihood of earnings being deposited into the excess investment earnings account. Under this scenario, money would be less likely to be diverted to the excess investment earnings account.

Local Government Impact

With the current assumed rate of return, HB 2473 would have no local government cost.

3/4/03